

VZCZCXRO8978
RR RUEHDE
DE RUEHAS #0781/01 1191644
ZNR UUUUU ZZH
R 291644Z APR 06
FM AMEMBASSY ALGIERS
TO RUEHC/SECSTATE WASHDC 0967
INFO RUEHHH/OPEC COLLECTIVE
RUEHMD/AMEMBASSY MADRID 8449
RUEHNM/AMEMBASSY NIAMEY 1157
RUEHTC/AMEMBASSY THE HAGUE 0409
RUEHKL/AMEMBASSY KUALA LUMPUR 0035
RUEHAT/AMCONSUL AMSTERDAM 0001
RUEHOS/AMCONSUL LAGOS 0052
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 02 ALGIERS 000781

SIPDIS

SIPDIS

DEPARTMENT FOR INR/B

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [AG](#)

SUBJECT: HEAD OF SHELL ALGERIA OFFERS VIEWS ON ALGERIAN
ENERGY SECTOR

ALGIERS 00000781 001.2 OF 002

¶1. Summary: The head of Shell Algeria, Michael Blaha, described to Econoff April 24 his perspective on Sonatrach and the impact of the 2005 hydrocarbon law. Blaha noted the difficulties the Algerians were having in finding experienced workers for Algeria's new energy regulatory agencies that were established by the law. He said that he viewed Sonatrach, now stripped of its monopoly over Algerian extraction, as modeling itself along the lines of international energy companies such as Norway's Statoil or Malaysia's Petronas. Blaha described how after a nearly 15 year absence from Algeria, Shell had acquired exploration blocks and was conducting a feasibility study of Nigerian gas reserves to evaluate its role in the Trans-Saharan Pipeline project. End Summary.

DISORDER ACCOMPANIES NEW HYDROCARBON LAW

¶2. Michael Blaha, the head of Shell Algeria, described to Econoff April 24 the disorder that accompanied the adoption of Algeria's new hydrocarbon law in 2005, which spun off Sonatrach's regulatory functions into separate agencies and required Sonatrach to compete with international competitors in bids for Algerian energy projects. Specifically, Blaha underscored the lack of expertise in the new regulatory agencies (ALNAFT and ARH) created under the law. Blaha noted that the new agencies were in the process of "poaching" experts from Sonatrach, but it was a slow process; Blaha intimated that Sonatrach was reluctant to see some of these experts go. He summarized the new hydrocarbon law as the "minimum" Algeria could have done. The changes undertaken in the law, he said, were not as revolutionary as the fanfare that accompanied them might have suggested; in fact, the GoA had been planning the reforms for a long time.

VIEWS ON FUTURE OF SONATRACH

¶3. Stripped of its monopoly over Algerian extraction, Blaha said he viewed Sonatrach as modeling itself along the lines of international energy companies such as Norway's Statoil or Malaysia's Petronas. To accomplish this goal, Sonatrach recently established an international division. Queried on whether its approach to internationalization would be through the sharing of LNG technologies that Sonatrach helped pioneer

in the 1960s, Blaha commented that Algeria's LNG technology was no longer state of the art. Rather, Sonatrach's comparative advantage was in hydrocarbon trading. Blaha described the Algerians as "very savvy traders."

14. Specifically, Blaha highlighted the role of Sonatrach's vice president for commercialization, Ali Hached, whom he described as perhaps the second most important person in the Algerian energy sector behind Minister of Energy and Mines Chakib Khelil. Blaha said Hached has determined Sonatrach's pricing decisions for the last 12 years. Hached also formulated the policy to sell gas to Spain exclusively through pipeline, presumably to ensure Algeria's long-term access to European markets.

SHELL RETURNS AFTER NEARLY 15-YEAR HIATUS

15. Blaha described Shell's return to the Algerian market after a nearly 15 year absence. Shell operated in Algeria from the early 1960s until the late 1980s. Last September, Shell acquired exploration rights in the Gourara Basin (blocks 345, 346, and 322) as well as the Reggane Region (blocks 328, 352, and 362). In addition, Shell is pursuing a gas-to-liquids project with a consortium of international energy companies including Statoil, BHB Billiton, South Africa's Sasol, and Chevron. In February, Shell signed a memorandum of understanding with Sonatrach to develop upstream, downstream, and marketing projects.

SHELL STUDYING NIGERIAN PIPELINE PROJECT

16. Blaha, who previously worked for Shell in Nigeria, said that Shell had been approached -- presumably by Sonatrach or Nigerian officials, although he did not specify -- regarding

ALGIERS 00000781 002.2 OF 002

the proposed Trans-Sahara gas pipeline that would link Nigerian fields to Algeria's gas grid through Niger. He said that Shell's experience in pipelines and its significant presence in Nigeria made it a leading candidate for the project. He noted that the project would be much less complicated than other pipelines he had worked on for Shell, including China's West-East pipeline. Blaha said Shell's decision to take part in the project would hinge on its technical assessment, currently underway, of retrievable Nigerian gas reserves. He said the reserves would have to be sufficiently high to compensate for Nigeria's political risk. For the Niger section of the proposed pipeline, Blaha estimated the political risk as low and added that Nigeriens would benefit from pipeline transit rents and access to natural gas.

SIEVERS